

ANNUAL FINANCIAL STATEMENTS

for

MHLONTLO LOCAL MUNICIPALITY

for the year ended 30 June: **2010**

Province:

Eastern Cape

AFS rounding:

R'000 (i.e. to the nearest R100,000)

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MHLONTLO LOCAL MUNICIPALITY



MHLONTLO LOCAL MUNICIPALITY FOREWORD

The functions of the Council centres around promoting the interests of its ratepayers, employees residents and customers by striving to render the highest quality of services, advancing the interests of its employees by providing safe, secure and satisfying working environments.

A further important challenge facing Council is to improve the financial position of Mhlontlo Local Municipality. In particular an improvement in the collection of long outstanding debtor's balances is critical if the Council it to achieve its goals. The unfortunate part is that the unemployment rate in the area has worsened causing many residents not to be able to pay for services. Our ability to render services will be threatened in our financial status and we hope that workable solutions will be found soon challenge.

As we strive towards impacting rural livelihood for the better in local Municipality of Mhlontlo, amongst the compliance issues is the submission of the Annual Financial Statements (AFS) as prescribed in section 126 of the Local Government: Municipal Finance Management Act 56 of 2003

I therefore submit 2009/10 Annual Financial Statements which are compliant to GRAP standards although fully complied with these standards we have use Directive four. The Council remains committed to meeting the challenges it faces and hopefully in future years, I will be able to report positively on the progress we have made in this regard.

In conclusion I would like to express my appreciation to my fellow Council members, the Municipal Manager, The Chief Financial Officer and all other staff for their support, cooperation and hard work during the year under review.

MAYOR AND CHAIRMAN OF EXECUTIVE COMMITTEE

MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

General information (continued)

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MHLONTLO LOCAL MUNICIPALITY



ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2010

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 47, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

M Sondaba
Municipal Manager

N Ponco
Chief Finance Officer

MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2010

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MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2010

	Note	2010 R	2009 R
NET ASSETS AND LIABILITIES			
Net assets		30 360 708	2 301 403
Accumulated surplus / (deficit)		30 360 708	2 301 403
Non-current liabilities			
Non-current provisions	1	-	-
Current liabilities		12 801 548	11 153 299
Current provisions	30	4 351 549	4 967 761
Creditors	3	3 131 234	3 580 555
Unspent conditional grants and receipts	4	3 238 328	2 604 983
Bank overdraft	12.1	2 080 436	-
Current portion of long-term liabilities		-	-
Total Reserves and Liabilities		43 162 257	13 454 702
ASSETS			
Non-current assets		26 490 317	0
Property, plant and equipment	5	26 490 317	0
Investment properties carried at fair value	6	-	-
Current assets		16 671 940	13 454 701
Inventory	7	-	-
Consumer debtors	8	1 749 164	9 303 350
Other debtors	9	545 685	1 278 718
VAT	10	10 817 062	49 397
Call investment deposits	11	3 441 856	571 584
Bank balances and cash	12.3 -12.4	118 173	2 251 652
Total Assets		43 162 257	13 454 702

MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2010

	Note	2010 R	2009 R
REVENUE			
Property rates	13	8 666 672	1 923 107
Service charges - refuse	14	700 101	655 078
Rental of facilities		36 652	41 970
Interest earned - external investments		1 181 936	268 050
Interest earned - outstanding debtors		-	-
Fines		52 361	72 651
Licences and permits		45 189	9 214
Government grants and subsidies	15	132 714 253	60 816 685
Other income	31	3 235 427	2 944 517
Gains on disposal of property, plant and equipment		-	-
Total Revenue		146 632 590	66 731 272
EXPENDITURE			
Employee related costs	16	26 127 730	19 859 307
Remuneration of Councillors	17	8 583 328	6 459 878
Bad debts		15 766 078	2 914 506
Depreciation		-	-
Repairs and maintenance		2 710 195	1 587 611
Interest paid	18	34 538	440 996
General expenses	32	71 152 829	38 303 939
Total expenditure		124 374 700	69 566 237
SURPLUS / (DEFICIT) FOR THE YEAR		22 257 890	(2 834 965)

MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF CHANGES TO NET ASSETS
For the year ended 30 June 2010

	Capitalisation Replacement Reserve	Housing Development Fund	(Accumulated Deficit) / Accumulated Surplus	Total
<u>2 009</u>				
Balance at 01 July 2008		-	5 136 368	5 136 368
Correction of prior period error		-	-	-
Implementation of GRAP				-
Implementation of GRAP (note 19)	-	-	-	-
Surplus / (Deficit) for the year	-	-	(2 834 965)	(2 834 965)
Balance at 30 June 2009	-	-	2 301 403	2 301 403
<u>2010</u>				
Balance at 01 July 2009	-	-	2 301 403	2 301 403
Change in accounting policy	-	-		-
Balance at 01 July 2009	-	-	2 301 403	2 301 403
Correction of error (note 21)	-	-	5 801 415	5 801 415
Surplus / (Deficit) for the year	-	-	22 257 890	22 257 890
Balance at 30 June 2010	-	-	30 360 708	30 360 708

MHLONTLO LOCAL MUNICIPALITY
CASH FLOW STATEMENT
For the year ended 30 June 2010

	Note	2010 R	2009 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		145 450 654	66 463 222
Cash paid to suppliers and employees		(121 451 381)	(46 654 226)
Cash generated by / (utilised in) operations	22	23 999 273	19 808 996
Interest received		1 181 936	268 050
Interest paid		(34 538)	(440 996)
NET CASH FROM OPERATING ACTIVITIES		25 146 670	19 636 050
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(26 490 316)	(16 989 863)
National proceeds (current year) on disposal of property, plant and equipment		-	
Increase in investment properties		-	
Correction of error (vacant sites)		-	
Proceeds on disposal of vacant sites		-	
(Increase)/decrease in non-current receivables		-	
Increase in non-current investments		-	
Unspent grants and receipts		-	
(Increase)/Decrease in call investment deposits		(2 870 272)	
Change in accounting policy - Trust and project fund		-	(103 000)
Decrease in long-term receivables		-	
NET CASH FROM INVESTING ACTIVITIES		(29 360 588)	(17 092 863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in non-current provisions		-	-
Loans raised / (repaid)		-	-
Increase in consumer deposits		-	-
(Decrease)/increase in short-term loans		-	-
NET CASH FROM FINANCING ACTIVITIES		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		(4 213 918)	2 543 188
(Decrease) / Increase in cash investments			2 239 142
Prior year adjustments		24 007	5 532 271
Cash and cash equivalents at the beginning of the year	23	2 227 648	(8 086 953)
Cash and cash equivalents at the end of the year	23	(1 962 263)	2 227 648

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2010

1. BASIS OF ACCOUNTING

1.1 Basis of presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) and we have adopted the requirements exempted in Gazette 30013 of 27 June 2007. The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 9	Revenue from Exchange Transactions
GRAP 11	Construction contracts
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 100	Non-current assets held for sale and discontinued operations

Where there is no equivalent standard of GRAP or IPSAS an International Financial Reporting Standard (IFRS) that is effective forms part of the GRAP reporting framework. This applies to the accounting standards detailed below:

IAS 14 (AC 115)	Segment reporting
IAS19 (AC 116)	Employee benefits
IAS20 (AC 134)	Accounting for government grants and disclosure of government assistance
IAS24 (AC 126)	Related party disclosures
IAS 32 (AC 125)	Financial instruments: Disclosure and presentation
IAS 36 (AC 128)	Impairment of assets
IAS 39 (AC 133)	Financial instruments: Recognition and measurement
IFRS 04 (AC 141)	Insurance contracts
IFRS 07 (AC 144)	Financial Instruments: Disclosures

Exemptions from these standards as they relate to the interim arrangements on the implementation of GRAP are detailed under each relevant accounting policy note below as they apply to the municipality.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2010

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative information

Budget information in accordance with GRAP 1 and 24 has been provided in an annexure to these financial statements and forms part of the annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts have not been restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far practicable and the prior year comparatives are restated accordingly.

1.5 Accounting policies, changes in accounting estimates and errors

The municipality has taken advantage of the interim arrangements with respect to the implementation of GRAP. Accordingly and with respect to Directive 4 the municipality is not required to identify the impact of GRAP standards that have been issued but are not yet effective.

1.6 HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

2. RESERVES

2.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

**MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 2010

2.2 Government Grant Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated a transfer is made from the Government Grant to the accumulated surplus. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services and for administrative purposes and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The municipality has applied the transitional provision, within GRAP17 - Property, plant and equipment, as it relates to measurement and therefore the cost of the assets have been recorded at provisional amounts, namely at R0 per major asset category, for all assets purchased prior to the 2009/10 financial year. There has been a subsequent measurement of 2009/10 additions of property, plant and equipment which have been disclosed at cost and no depreciation has been accounted for in the annual financial statements. The municipality has till the end of June 2012 to measure property, plant and equipment in terms of GRAP17.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be a provisional amount.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at the provisional amount.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

3. PROPERTY, PLANT AND EQUIPMENT (Cont.)

3.2 Subsequent measurement - revaluation model (Land and Buildings)

The municipality has applied the transitional provisions within GRAP17 - Property, plant and equipment and therefore there has been no subsequent measurement. The municipality is in the process of ascertaining values for the assets and this is required to be performed by 30 June 2012.

3.3 Depreciation and impairment

As the municipality has applied the transitional provision within GRAP17 - Property, plant and equipment as relates to measurement, no depreciation has been accounted for in the annual financial statements.

3.4 Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4. INVESTMENT PROPERTY

4.1 Initial recognition

Investment property includes property (land or a building, or a part of a building, or both land or buildings held under an operating lease) held to earn rentals and / or for capital appreciation, rather than held to meet service delivery objectives, production or supply of goods or services or the sale of an asset in the ordinary course of operations. Investment properties are initially recognised as assets on acquisition date and are initially recorded at cost. The municipality has applied the transitional provision, within GRAP17 - Property, plant and equipment (inclusive of investment property), as it relates to measurement and therefore the cost of the assets have been recorded at provisional amounts, namely at R0. There has been no subsequent measurement of property, plant and equipment and therefore no depreciation has been accounted for in the annual financial statements. The municipality has till the end of June 2012 to measure property, plant and equipment in terms of GRAP17.

Where an investment property is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be a provisional amount.

Where an investment property is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at the provisional amount.

4.2 Subsequent measurement - revaluation model (Investment property)

The municipality has applied the transitional provisions within GRAP17 - Property, plant and equipment (inclusive of investment property) and therefore there has been no subsequent measurement. The municipality is in the process of ascertaining values for the assets and this is required to be performed by 30 June 2012.

4.3 Depreciation and impairment

As the municipality has applied the transitional provision within GRAP17 - Property, plant and equipment as relates to measurement, no depreciation in respect of investment property has been accounted for in the annual financial statements.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

4. INVESTMENT PROPERTY (Cont.)

4.4 Derecognition

Items of Investment Property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5. TRADE AND OTHER RECEIVABLES

Trade and other receivable are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

6. TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayment, plus interest.

7. CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets, loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on the bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

8. INVENTORIES

8.1 Initial Recognition

The municipality has taken advantage of the transitional arrangements in the implementation of GRAP, accordingly the municipality is exempted from complying with GRAP 12 to the extent that it relates to immovable capital assets.

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

The municipality has applied the Directive 4 transitional provisions and therefore there has been no subsequent measurement. The municipality is in the process of ascertaining values for the assets and this is required to be performed by 30 June 2012.

9. FINANCIAL INSTRUMENTS

The municipality has taken advantage of the interim arrangements with respect to the implementation of GRAP this with specific reference to IAS 39 (AC 133) being the initial measurement of financial assets and liabilities at fair value. Accordingly, financial assets and liabilities are initially recognised at cost.

10. INVESTMENTS

Investments which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

11. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is removed. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

12. LEASES

12.1 Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the payments which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to depreciation of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating leases are accrued and accounted for on a straight-line basis over the term of the relevant lease, this on the basis of the cash flows in the lease agreement. The principle of smoothing the current and future lease payments has not been applied. Notwithstanding the exemptions on the recognition of operating lease agreement, the municipality has early adopted IAS 17 (AC 105).

The municipality has applied the Directive 4 transitional provisions and therefore there has been no subsequent measurement. The municipality is in the process of ascertaining values for the assets and this is required to be performed by 30 June 2012.

12.2 Municipality as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

13. CONDITIONAL GRANTS AND RECEIPTS

Revenue from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligation embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is raised.

14. REVENUE

14.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passes to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

The municipality has opted to take advantage of the exemption on accounting for revenue in terms of GRAP 09. That means revenue has initially been measured at cost and not at fair value wherein all future receipts are discounted at the imputed rate of return.

14.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when payments is received, together with an estimate of spot fines and summons that will be received based on past experience of amounts collected.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

14.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS (Continued)

Revenue from public contributions and donations is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (56 of 2003) and is recognised when the recovery thereof from the responsible councils or officials is virtually certain.

15. GRANTS, TRANSFERS AND DONATIONS

IAS 20 (AC 134) has been early adopted.

Grants, transfers and donations received are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance.

17. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (32 of 2000), the Public Office Bearers Act (20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure is accounted for as an expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

19. RETIREMENT BENEFITS

The municipality operates a defined contribution plan in the form of a provident fund scheme covering employees. The assets of the scheme are held separately from those of the municipality and are administered by the scheme's trustees. Contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered service entitling them to contributions.

20. IMPAIRMENT OF ASSETS

The municipality has taken advantage of the transitional arrangements with respect to IAS 36 (AC 128) impairment of assets, meaning that the municipality is exempted from complying with this standard.

21. SEGMENT REPORTING

The municipality has taken advantage of the transitional arrangements with respect to IAS 14 (AC 115) segment reporting, accordingly the municipality is exempted from complying with this standard.

22. EVENTS AFTER THE REPORTING DATE

The municipality considers events that occur after the reporting date for inclusion in the annual financial statements. Events that occur after the reporting date (30 June 2010) and the date on which the audit of the financial statements is completed (30 June 2010) are considered for inclusion in the annual financial statements.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

		2010 R	2009 R
1	NON-CURRENT PROVISIONS		
	Provision for rehabilitation of landfill sites		
	Total Non-Current Provisions		
	The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 9.6 over an average period of 11 years.		
	The movement in the non-current provision is reconciled as follows: -		
	Provision for rehabilitation of landfill sites:		
	Balance at the beginning of year	-	-
	Contributions to provision	-	-
	Expenditure incurred	-	-
	Increase in provision due to discounting	-	-
	Transfer to current provisions	-	-
	Balance at the end of year	-	-
2	CURRENT PROVISIONS		
	Current portion of long-service provision (see note 1)	-	-
		-	-
	The movement in current provisions is as follows:		
		Landfill site rehabilitation	
	Transfer from non-current	-	-
	Balance at the beginning of the year	-	-
	Contributions to provision	-	-
	Expenditure incurred	-	-
	Balance at the end of the year	-	-

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

		2010	2009
		R	R
3	CREDITORS		
	Trade creditors and accruals	2 672 156	3 391 044
	Payroll creditors N1	447 078	-
	Stale cheques	0.00-	178 876
	Sundry suppliers	0.00-	10 635
	Income received in Advance	12 000	-
	Balance at the end of the year	3 131 234	3 580 555

N1 We did not restate prior year entries, so we have not split payroll creditors and debtors for 2008/09 to determine the comparative figures.

4	UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
	Gqunu lots	1 419 173	1 419 173
	Retrenchments	2 128	92 128
	IDP	58 582	58 582
	MSP and special	33 234	33 234
	LED	736 551	13 206
	Bulk Housing	63 103	63 103
	Pilot Housing (Qumbu)	889 376	889 376
	30 Tsolo Pilot Housing	36 181	36 181
		3 238 328	2 604 983

These unspent conditional grants at year end are from grants that were given to the municipality for specific purposes which have not been met as yet.

The movement between the investments and the unspent conditional grant is due to interest received on investments that is not part of conditions of the grants. Therefore these interest have been disclosed in the statement of financial performance for the year under review.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

5 PROPERTY, PLANT AND EQUIPMENT
At 30 June 2010
5.1 Reconciliation of Carrying Value

Description	Land and buildings	Infrastructure	Community assets	Capitalised leased assets - Motor vehicles	Other assets	Total
	R	R	R	R	R	R
Carrying values at 1 July 2009	(0)	(0)	0	-	(0)	0
Cost	(0)	(0)	0	-	(0)	0
Correction of error	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Correction of error	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-
Acquisitions	0	-	-	-	-	-
Capital under construction	-	-	-	-	-	-
Depreciation:	-	-	-	-	-	-
- based on cost	-	-	-	-	-	-
- based on revaluation	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Other movements	0	-	-	-	-	-
Carrying values at 30 June 2010	270 000	25 345 066	106 660	-	768 590	26 490 317
Cost	(0)	(0)	0	-	(0)	0
Additions	270 000	25 345 066	106 660	-	768 590	26 490 316
Revaluation	-	-	-	-	-	-
Application of ASB Directive 4 transitional provision	-	-	-	-	-	-
- transferred to Accumulated Surplus	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

5 PROPERTY, PLANT AND EQUIPMENT

At 30 June 2009

5.1 Reconciliation of Carrying Value

Description	Land and buildings	Infrastructure	Community assets	Capitalised leased assets - Motor vehicles	Other assets	Total
	R	R	R	R	R	R
Carrying values at 1 July 2008	24 825 187	55 321 266	10 795 435	-	14 490 952	105 432 839
Cost	24 825 187	55 321 266	10 795 435	-	14 490 952	105 432 839
Correction of error	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Correction of error	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Capital under construction	-	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-	-
Depreciation:	-	-	-	-	-	-
- based on cost	-	-	-	-	-	-
- based on revaluation	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
Carrying values at 30 June 2009	(0)	(0)	0	-	(0)	0
Cost	24 825 187	55 321 266	10 795 435	-	14 490 952	105 432 840
Revaluation	-	-	-	-	-	-
Application of ASB Directive 4 transitional provision	(24 825 187)	(55 321 266)	(10 795 435)	-	(14 490 952)	(105 432 840)
- transferred to Accumulated Surplus	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

5 PROPERTY, PLANT AND EQUIPMENT

5.2 Property, plant and equipment pledged as security

Property description	Pledged in favour of:	Value of encumbrement
		-

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

6	INVESTMENT PROPERTIES CARRIED AT NOMINAL VALUE	Total Municipal Properties
	Opening balance	-
	Transfer from Property, Plant and Equipment	-
	Closing balance	-
	The three municipal properties representing investment properties are in accordance with the accounting policy carried at nominal value.	
7	INVENTORY	
	Consumable stores at cost	- -
	Maintenance materials at cost	- -
		- -

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

		2010 R	2009 R	
8	CONSUMER DEBTORS			
		Gross <u>balance</u>	Provision for <u>bad debts</u>	Net <u>balances</u>
	As at 30 June 2010			
	Service debtors			
	Rates	9 535 370	(8 257 685)	1 277 685
	Refuse	2 103 388	(1 926 954)	176 433
	Old balances	5 876 484	(5 581 439)	295 045
		<u>17 515 242</u>	<u>(15 766 078)</u>	<u>1 749 164</u>
	As at 30 June 2009			
	Service debtors			
0	Rates	3 668 297		3 668 297
	Refuse	1 551 224		1 551 224
	Old balances	6 998 335	(2 914 506)	4 083 829
		<u>12 217 856</u>	<u>(2 914 506)</u>	<u>9 303 350</u>
	<u>Rates: Ageing</u>			
	Current		(266 831)	25 582
	0 - 30 days		109 688	109 186
	31 - 60 days		107 788	105 160
	61 - 90 days		106 867	104 132
	91 -120 days		9 477 858	3 324 236
	121 - 150days			-
0	+ 150 days			-
	Total		<u>9 535 370</u>	<u>3 668 297</u>
	<u>Refuse: Ageing</u>			
	Current		(12 098)	(21 057)
	0 - 30 days		52 152	50 632
	31 - 60 days		51 945	50 310
	61 - 90 days		51 077	50 229
	91 -120 days		1 960 312	1 421 110
	121 - 150 days			
	+ 150 days			
	Total		<u>2 103 388</u>	<u>1 551 224</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
8 CONSUMER DEBTORS (Cont.)		
<u>Old balances : Ageing</u>		
Current	(70 397)	(59 653)
0 - 30 days		957
31 - 60 days		15 999
61 - 90 days		6 344 385
91 -120 days	5 946 881	-
121 - 150 days		-
+ 150 days		-
Total	5 876 484	6 301 688
Prior year adjustment	0	696 647
Grand-total consumer debtors	17 515 242	12 217 856
9 OTHER DEBTORS		
Sundry debtors	-	49 398
Other debtors	-	300 000
Employee debtors		443 920
Payroll debtors	545 685	485 400
	545 685	1 278 718
10 VAT		
Vat receivable	10 817 062	49 397
The vat refunds for the 2009/10 financial year have not been received from SARS.		

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
11 CALL INVESTMENT DEPOSITS		
Financial instruments		
Revolving fund	37 572	25 127
Gqunu lots	1 110 240	219 173
Retrenchment	2 151	2 128
IDP Grant	60 216	58 582
Bulk housing	64 186	63 103
Pilot housing	787 421	9 376
30 Tsolo pilot housing	36 839	36 181
Equitable share 32 day notice	94 812	87 694
Equitable share 1 day notice	43 830	11 481
LED	760 560	13 206
MIG	410 189	12 298
MSP	33 839	33 235
Investment call accounts	3 441 856	571 584
12 BANK, CASH AND OVERDRAFT BALANCES		
The Municipality has the following bank accounts:		
Current Account		
FNB - Qumbu - Account Number: 62023382526		
Bank statement balance at the end of the year	23 650	2 227 683
12.1 <u>Bank Overdraft</u>		
Cash book balance at the beginning of the year		
Cash book balance at the end of the year	-2 080 436	1 922 720

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
12 BANK, CASH AND OVERDRAFT BALANCES (Cont.)		
12.2 Petty cash balance	-	2 952
12.3 Credit card - Main Account	95 852	21 020
12.4 Credit card - 8812 7129 0320 4007	22 321	
12.3 -12.4 Bank and cash balance	118 173	2 251 655
13 PROPERTY RATES		
<u>Actual</u>		
Rates	8 666 672	1 923 107
Total assessment rates	8 666 672	1 923 107
<u>Property valuations</u>		
Rates		
Total property valuations	0	0
Valuations on land and buildings are performed every four years. The last valuation came into effect on 01 July 2007. The site rates are applied on different classes of properties to determine assessment rates. Rates are levied on an annual basis on property owners.		
	Rate	
Residential properties	0.006	1 251 319
Government properties	0.0096	6 343 246
Business properties	0.012	1 072 106
	8 666 672	1 923 107
14 SERVICE CHARGES		
Refuse removal	700 101	655 078

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010	2009
	R	R
15 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	55 686 782	41 454 708
Municipal Support Programme - Various	-	45 206
Municipal Support Programme - Administrative	-	-
Municipal Finance Management Grant	1 000 000	500 000
IDP Development Grant	-	-
MIG Grant	24 746 000	14 133 363
MSIG Grant	-	735 000
OR Tambo contribution	120 000	2 113 470
Environmental Management Plan Grant	329 931	109 438
Independent Electoral Commission Grant	-	1 225 500
Grant Prov - LED	-	500 000
GRANT PROV - HR MANAGEMENT & DEVELOPM	300 000	-
GRANT PROV - HOUSING PROJECTS	204 540	-
ELECTRIFICATION PROGRAM	50 327 000	-
Total government grants and subsidies	132 714 253	60 816 685
15.1 Equitable share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. As part of this service, the municipality provides free basic electricity through a formalised mechanism through Eskom.		
15.2 Gqunu Lots		
Balance unspent at the beginning of the year	1 419 173	1 419 173
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	1 419 173	1 419 173
15.3 Retrenchments		
Balance unspent at the beginning of the year	92 128	92 128
Current year receipts	-	-
Conditions met - transferred to revenue	(90 000)	-
Conditions still to be met - transferred to liabilities	2 128	92 128
15.4 MSP and special		
Balance unspent at the beginning of the year	33 234	33 234
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	33 234	33 234
15.5 IDP Development - Grant		
Balance unspent at the beginning of the year	58 582	58 582
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	58 582	58 582

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
15 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
15.6 MIG Grant		
Balance unspent at the beginning of the year		-
Current year receipts	24 746 000	14 133 363
Conditions met - transferred to revenue	(24 746 000)	(14 133 363)
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>
<p>This is an infrastructure support grant. Conditions yet to be met are that the municipality must still utilise this funding for Capital expenditure purposes and that this amount represents the first tranche of the 2010/11 Infrastructure Grant.</p>		
15.7 MSIG Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts		735 000
Conditions met - transferred to revenue		(735 000)
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>
<p>This is a systems development / capacity building grant intended to support the municipality as a whole. The unspent portion (15.6%) of the grant represents the remainder of capacity building initiative overlapping into the 2009/10.</p>		
15.8 Local Economic Development Grant		
Balance unspent at the beginning of the year	13 206	13 206
Current year receipts	780 633	-
Conditions met - transferred to revenue	(57 288)	-
Conditions still to be met - transferred to liabilities	<u>736 551</u>	<u>13 206</u>
15.9 Environmental Management Plan Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts		109 438
Conditions met - transferred to revenue	-	(109 438)
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
15 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
15.10 Independent Electoral Commission Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts		1 225 500
Conditions met - transferred to revenue	-	(1 225 500)
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>
15.11 ELECTRIFICATION PROGRAM		
Balance unspent at the beginning of the year	-	-
Current year receipts	50 327 000	-
Conditions met - transferred to revenue	(50 327 000)	-
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010	2009
	R	R
16 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and wages	14 189 572	9 852 501
Employee related costs - Contributions for UIF, Provident Fund, Medical Aids and SDL	114 649	105 804
Travel, motor car, accommodation, subsistence	3 766 334	3 053 970
Overtime payments	5 308 067	4 407 045
Provision for Leave Pay	97 560	386 732
Provision for Bonus	2 308 233	1 652 249
	343 316	401 006
Total employee related costs	26 127 730	19 859 307
Remuneration of the Municipal Manager		
Annual remuneration	664 622	514 879
Backpay	87 459	
Car allowance	68 053	67 763
Contribution to UIF and related items	28 405	34 260
	848 540	616 902
Remuneration of the Chief Finance Officer		
Annual remuneration	473 083	426 961
Backpay	10 337	
Car allowance	102 564	93 240
Contribution to UIF and related items	108 113	101 400
	694 098	621 601
Remuneration of the Manager - Corporate Services		
Annual remuneration	473 083	426 961
Backpay	75 350	
Car allowance	102 564	93 240
Contribution to UIF and related items	108 113	101 400
	759 111	621 601
Remuneration of the Engineering Manager		
Annual remuneration	522 467	479 334
Backpay	10 337	
Car allowance	127 027	108 000
Contribution to UIF and related items	34 267	34 267
	694 098	621 601
Remuneration of the Community Services Manager		
Annual remuneration	473 083	426 961
Backpay	75 350	
Car allowance	102 564	93 240
Contribution to UIF and related items	108 113	101 400
	759 111	621 601
Remuneration of the Strategic Manager		
Annual remuneration	565 494	503 334
Backpay	75 350	
Car allowance	84 000	84 000
Contribution to UIF and related items	34 267	34 267
	759 111	621 601

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
17 REMUNERATION OF COUNCILLORS		
Mayor	566 516	425 006
Speaker	448 537	384 475
Exco members	1 631 845	1 355 479
Councillors	5 936 430	4 294 918
Total councillors' remuneration	8 583 328	6 459 878
18 INTEREST PAID		
Finance leases		-
Bank overdraft		440 996
Outstanding payments	34 538	
Total interest on external borrowings	34 538	440 996
19 CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GRAP		
In the previous financial year, the following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GRAP.		
19.1 Statutory, Trust and Project Funds		
Balances previously reported:		
	-	-
Implementation of GRAP		
Capital Replacement Reserve Fund	-	
Housing Development Fund	0	
	0	0

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
19 CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GRAP		
The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GRAP:		
19.2 Loans Redeemed and Other Capital Receipts		
Balances previously reported:		68 804 014
Implementation of GRAP		
Transferred to the Accumulated Deficit		68 804 014
now credited to the Accumulated Deficit		
19.3 Property, Plant and Equipment		
Balances previously reported:		105 432 840
Implementation of GRAP		
Infrastructure and other assets (at nominal value) not recorded now debited to the Accumulated Deficit		105 432 840
19.4 Leases		
Balances previously reported:		181 504
Implementation of GRAP		
Transferred to the Accumulated Deficit		
now debited to the Accumulated Deficit		181 504
19.5 Accumulated deficit		
Previously reported balance - accumulated deficit (30 June 2008)		5 136 368
Transferred from Leases		
Nominal value of Property, plant and equipment previously not recorded		
Transferred from Loans Redeemed and other Capital receipts		
Appropriation Account		
Surplus/(Deficit)		(2 834 965)
Revised closing balance - 30 June 2009		2 301 403

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
20 CHANGE IN ACCOUNTING POLICY		
The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies:		68 804 014
20.1 Provision for the landfill site rehabilitation		
Previously this provision was not made in the annual financial statements.		-
21 CORRECTION OF ERROR		
Correction of the Accumulated Surplus/ (Deficit) TB Balance in order to agreed to the AFS balance at 30 June 2009		(5 801 415)
Net effect on deficit		(5 801 415)
22 CASH GENERATED BY OPERATIONS		
Surplus for the year	22 257 890	(2 834 965)
Adjustment for:		
Capital expenditure	-	16 989 863
Change in accounting policy	-	-
Correction of error	5 801 415	-
Investment income	(1 181 936)	(268 050)
Interest paid	34 538	440 996
Operating surplus / (deficit) before working capital changes:	26 911 908	14 327 844
Increase in inventories	-	-
Decrease / (increase) in consumer debtors	7 554 187	(2 364 360)
Decrease / (increase) in other debtors	733 032	-
Increase in unspent conditional grants and receipts	633 345	-
Increase in creditors	(449 321)	2 877 751
Decrease / (increase) in provisions	(616 212)	4 967 761
Increase in VAT refundable	(10 767 665)	-
Decrease in current portion of long-term receivables	-	-
(Decrease) / Increase in current portion of long-term liabilities	-	-
Cash generated by / (utilised in) operations	23 999 273	19 808 996

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
23 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:		
Bank balances and cash	118 173	2 251 652
Bank overdraft	-2 080 436	-
Total cash and cash equivalents	-1 962 263	2 251 652

Prior year adjustment

This adjustment is due to the error that was made in the prior year. The credit card balances were not taken into account when calculating the cash and cash equivalent at year end as per the Cash Flow Statement.

24 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

24.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure:

Opening balance	-	-
Unauthorised expenditure current year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-

Incident	Disciplinary steps / criminal proceedings
N/A	None.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
24 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		
24.2 Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	-	-
Fruitless and wasteful expenditure current year	34 538	118 943
Condoned or written off by Council		(91 491)
Transfer to receivables for recovery		-
Irregular expenditure awaiting condonement	<u>34 538</u>	<u>27 452</u>

Incident	Disciplinary steps / criminal proceedings
The municipality has been facing financial difficulties for the last few years. As a result, defaulting on payment terms has not been avoidable. However, in comparison to the prior year, the municipality is on the mend as the level of interest and penalties paid and payable has declined quite substantially. An amount of R91 491 was incurred in respect of penalties and interest charged by SARS. The council has since condoned this fruitless expenditure.	N/A
The expenditure relate to sheriff cost as the building contractor who build the municipal offices has not been paid as promised and has since taken legal action and amount of R27 452 was incurred in respect of this transaction.	N/A

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

		2010 R	2009 R
24	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (continued)		
24.3	Irregular expenditure		
	Reconciliation of irregular expenditure:		
	Opening balance	-	-
	Irregular expenditure current year		
	Approved by Council or condoned	-	-
	Transfer to receivables for recovery - not condoned	-	-
	Irregular expenditure awaiting authorisation	<u>-</u>	<u>-</u>

Incident	Disciplinary steps / criminal proceedings
Not applicable	Not applicable.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
25 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
25.1 Contributions to organised local government		
Opening balance	-	-
Council subscriptions	-	-
Amount paid - current year	-	-
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	<u>-</u>	<u>-</u>
25.2 Audit fees		
Opening balance	-	-
Current year audit fee provision	1 700 000	-
Amount paid - current year	-	-
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	<u>1 700 000</u>	<u>-</u>
There was no provision for audit fees raised in the prior year. Therefore the opening balance relates to prior year expenditure paid.		
25.3 VAT		
VAT input receivables are shown in note 10.	10 817 062	49 397
25.4 PAYE and UIF		
Opening balance	-	-
Current year payroll deductions	114 649	-
Amount paid - current year	-	-
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	<u>114 649</u>	<u>-</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
25 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)		
25.5 OPERATING LEASES		
At the reporting date the municipality has outstanding commitments under operating leases which fall due as follows:		-
Operating leases - lessee		
Within one year		-
In the second to fifth year inclusive		-
After five years	-	-
Total	<u>-</u>	<u>-</u>
Operating leases consists of the following: Operating lease payments represents two categories of payments being rentals payable by the municipality for various units of the office equipment and monthly amounts payable in respect of cellular phone equipment as utilised by the councilors and the relevant members of staff. Leases for office equipment are negotiated for an average term of 5 years and the rental payable is generally fixed. Cellular phone equipment contracts have a 24month duration.		
Operating leases - lessor		
Minimum lease payments due		
Within one year		-
In the second to fifth year inclusive	-	-
After five years	-	-
Total	<u>-</u>	<u>-</u>
Operating Leases consists of the following:		
The Municipality's investment property is primarily held to generate rental income. Lease agreements are renewed and are renewable on an annual basis.		

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
25 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)		
25.6 Pension and Medical Aid Deductions		
Opening balance	3 053 970	-
Current year payroll deductions and council contributions	(2 811 387)	(557 568)
Amount paid - current year	3 766 334	3 611 538
Amount paid - previous years	-	
Interest on arrears	-	0.00-
Balance unpaid (included in creditors)	4 008 917	3 053 970
26 RETIREMENT BENEFIT INFORMATION		
The municipality has a retirement contribution plan to which all qualifying employees belong.		-
27 CONTINGENT LIABILITY		
Nature of claim and commencement of claim	Amount claimed	
	-	
28 EVENTS AFTER THE REPORTING DATE		
There are no events subsequent to the reporting date that require reporting.		
29 COMPARISON WITH THE BUDGET		
The comparison of the Municipality's actual financial performance performance with that budgeted is set out in Appendix C.		
30 CURRENT PROVISIONS		
Provision for Audit Fees	1 700 000	-
Provision for Leave Pay	2 308 233	1 652 249
Provision for Bonuses (13th cheque)	343 316	401 006
Bad debts	-	2 914 506
	4 351 549	4 967 761

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2010

	2010 R	2009 R
31 OTHER INCOME		
ADVERTISING BILL BOARDS	43 687	39 044
CEMETERY FEE - BURIALS	3 294	6 468
CAR LOAN REPAYMENT	167 343	-
LEARNERSHIP - THETHA	-	480 000
TRAINING - LGSETA	122 000	111 423
DLTC LEARNERS & LEARNERS	1 726 113	1 054 479
PLAN FEES	5 603	9 496
POUND FEES	473 061	431 868
POUND SALES	421 930	479 329
SALE OF WOOD	1 810	2 450
SUNDRY INCOME	92 797	259 910
TENDER FEES	130 320	70 050
COMMISSION ON PAYROLL CONTRIBUTIONS	47 471	-
Total Other income	3 235 427	2 944 517
32 GENERAL EXPENSES		
General expenses balance comprises of the following significant expenditure items listed below:		
AUDIT FEES - EXTERNAL	3 259 195	1 189 594
CELLPHONE SUBSCRIPTION	679 261	163 265
CONSULTANT FEES	1 299 739	928 650
ELECTRICITY PURCHASE	466 844	326 032
FREE BASIC ELECTRICITY	1 841 058	1 420 122
FREE BASIC ENERGY	4 381 706	3 153 904
LEGAL FEES	467 250	81 478
MFMA IMPLEMENTATION	896 162	230 460
MANAGEMENT SUPPORT PROGRAMS	306 830	-
PRINTING AND STATIONERY	708 195	281 619
RATES REBATE	1 725 135	91 985
ELECTRIFICATION PROGRAM	44 162 565	-
VEGETABLE PROJECT	1 881 571	-

The significant increase in general expenses in the current year was due to a significant increase in equatable share & grants received, which meant there was more money to spend on operations & operational projects.

MHLONTLO LOCAL MUNICIPALITY

APPENDIX A

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Cost / Revaluation					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions / Revaluation	Under Construction	Transfer / Disposal	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
Land and Buildings										
Land					-	-	-	-	-	-
Land and buildings		270 000			270 000	-	-	-	-	270 000
	-	270 000	-	-	270 000	-	-	-	-	270 000
Infrastructure										
Street Lights					-	-	-	-	-	-
Tarred Roads					-	-	-	-	-	-
Access Roads		25 345 066			25 345 066	-	-	-	-	25 345 066
	-	25 345 066	-	-	25 345 066	-	-	-	-	25 345 066
Community assets										
Graveyard	-				-	-	-	-	-	-
Recreation grounds					-	-	-	-	-	-
Community Halls		106 660			106 660	-	-	-	-	106 660
	-	106 660	-	-	106 660	-	-	-	-	106 660
Leased assets										
Motor vehicles		-	-	-	-	-	-	-	-	-
Other assets										
Landfill site					-	-	-	-	-	-
Garage (Tsolo)		377 828			377 828	-	-	-	-	377 828
Park homes		57 777			57 777	-	-	-	-	57 777
Furniture and fittings	-	-			-	-	-	-	-	-
Plant and equipment					-	-	-	-	-	-
Motor vehicles					-	-	-	-	-	-
Tools and equipment					-	-	-	-	-	-
Office and traffic equipment		290 176			290 176	-	-	-	-	290 176
Computer equipment		42 809			42 809	-	-	-	-	42 809
	-	768 590	-	-	768 590	-	-	-	-	768 590
	-	26 490 316	-	-	26 490 316	-	-	-	-	26 490 316

MHLONTLO LOCAL MUNICIPALITY

**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED 30 JUNE 2010**

	Cost / Revaluation					Accumulated Depreciation				Carrying value
	Opening Balance	Additions	Under Construction	Transfer / Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
Executive & Council		647 828			647 828	-	-	-	-	647 828
Finance & Admin		332 985			332 985	-	-	-	-	332 985
Planning & Development					-	-	-	-	-	-
Community & Social Services		106 660			106 660	-	-	-	-	106 660
Public Safety					-	-	-	-	-	-
Waste Management					-	-	-	-	-	-
Road Transport		25 402 843			25 402 843	-	-	-	-	25 402 843
Total	-	26 490 316	-	-	26 490 316	-	-	-	-	26 490 316

MHLONTLO LOCAL MUNICIPALITY
APPENDIX C
Actual versus budget (Revenue and expenditure)

For the year ended 30 June 2010

REVENUE	2010 Actual	2010 Budget	2010 Variance	2010 Variance %	Explanation of significant Variances
Property rates	8 666 672	7 375 524	1 291 148	18%	Variance due to phasing in of new properties in the valuation roll.
Service charges - refuse	700 101	760 983	-60 882	-8%	Variance due to amendments to the valuation roll as per the debtors cleanup that was undertaken during the year.
Rental of facilities	36 652	10 000	26 652	267%	There was an increase in actual bookings due to the increase in demand for the hall during the year.
Interest earned - external investments	1 181 936	700 000	481 936	69%	This was due to the an increase on grant received on electrification program which lead to an increase in interest received
Fines	52 361	100 000	-47 639	-48%	Variance is due to a lack of enforcement of collection mechanisms.
Licences and permits	45 189	10 000	35 189	352%	Variance due to special permits paid during the financial year.
Government grants and subsidies	132 714 253	125 568 000	7 146 253	6%	Variance due to adjustment to the equitable share, FMG & difference in municipal financial year vs MIG
Other income	3 235 427	9 559 613	-6 324 186	-66%	There was an error in the budget as the municipality budgeted for Vat refunds from SARS. However Vat Refunds do not meet the recognition criteria of revenue in terms of AC 111. Hence they are not disclosed as income in the Statement of Financial Performance.
Total Revenue	146 632 590	144 084 120	2 548 470	2%	
EXPENDITURE					
Executive and Council	13 264 782	15 051 090	1 786 307	12%	Due to overbudget for salary increment, budget was for 13%, but actual was 8%
Corporate Services	12 074 348	8 227 560	-3 846 788	-47%	Due to underprovision for bonus, leave provision calculated at year end
Budget and Treasury	35 082 560	16 526 875	-18 555 684	-112%	Due to underprovision for bad debts provision calculated at year end
Local Economic Development	3 170 058	7 116 422	3 946 364	55%	Due to financial constraints some projects that were budgeted for were not implemented.
Engineering and planning	55 427 772	90 636 190	35 208 418	39%	Due to capitalisation of access road expenditure actually incurred in the current year
Community and Social services	5 355 179	6 525 983	1 170 803	18%	Due to vacant posts that were budgeted for, but were not filled in the current year
Total Expenditure	124 374 700	144 084 120	19 709 421	14%	
NET SURPLUS FOR THE YEAR	22 257 890	-0	22 257 890	-100%	

MHLONTLO LOCAL MUNICIPALITY

SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2010

	Executive & Council	Finance & Admin	Planning & Development	Community & Social Services	Public Safety	Sport & Recreation	Waste Management	Road Transport	TOTAL
	R	R	R	R	R		R	R	R
REVENUE									
Property rates		8 666 672							8 666 672
Service charges - refuse							700 101		700 101
Rental of facilities			679	35 973					36 652
Interest earned - external investments		1 181 936							1 181 936
Interest earned - outstanding debtors									-
Fines					52 361		-	-	52 361
Licences and permits					45 189		-	-	45 189
Government grants and subsidies		56 986 782	324 540		-		-	75 402 931	132 714 253
Other income		475 107	5 603	3 294	2 621 103		130 320	-	3 235 427
Total Revenue	-	67 310 497	330 822	39 267	2 718 653		830 421	75 402 931	146 632 590
EXPENDITURE									
Employee related costs	2 270 528	11 834 478	1 290 798	148 914	3 752 013	315 920	2 178 010	4 337 070	26 127 730
Remuneration of Councillors	8 583 328								8 583 328
Bad debts		15 766 078							15 766 078
Depreciation									-
Repairs and maintenance	-	344 719	-	-	46 064	-	399 996	1 919 417	2 710 195
Interest paid		34 538							34 538
General expenses	2 410 926	19 662 140	1 914 389	179 542	741 288	136 310	431 953	45 676 280	71 152 829
Total Expenditure	13 264 782	47 641 953	3 205 187	328 456	4 539 365	452 230	3 009 959	51 932 767	124 374 700
Surplus / (Deficit) for the year	(13 264 782)	19 668 543	(2 874 364)	(289 190)	(1 820 712)	(452 230)	(2 179 538)	23 470 163	22 257 890